



**Calhoun: The NPS Institutional Archive**

---

Theses and Dissertations

Thesis Collection

---

1986-03

An examination of the interrelationship between the structure of financial management and the internal audit function within the Department of Defense

Davis, Frances R.

---

<http://hdl.handle.net/10945/21839>



Calhoun is a project of the Dudley Knox Library at NPS, furthering the precepts and goals of open government and government transparency. All information contained herein has been approved for release by the NPS Public Affairs Officer.

**Dudley Knox Library / Naval Postgraduate School  
411 Dyer Road / 1 University Circle  
Monterey, California USA 93943**

<http://www.nps.edu/library>







DUDLEY KNOX LIBRARY  
NAVAL POSTGRADUATE SCHOOL  
MONTEREY, CALIFORNIA 93943-5002









# NAVAL POSTGRADUATE SCHOOL

## Monterey, California



# THESIS

AN EXAMINATION OF THE INTERRELATIONSHIP  
BETWEEN THE STRUCTURE OF FINANCIAL  
MANAGEMENT AND THE INTERNAL AUDIT  
FUNCTION WITHIN THE DEPARTMENT  
OF DEFENSE

by

Frances R. Davis

March 1986

Thesis Advisor

Joseph G. San Miguel

Approved for public release; distribution is unlimited.

T226215





## REPORT DOCUMENTATION PAGE

REPORT SECURITY CLASSIFICATION Unclassified		1b. RESTRICTIVE MARKINGS	
SECURITY CLASSIFICATION AUTHORITY		3 DISTRIBUTION/AVAILABILITY OF REPORT Approved for public release; distribution is unlimited	
DECLASSIFICATION/DOWNGRADING SCHEDULE			
PERFORMING ORGANIZATION REPORT NUMBER(S)		5. MONITORING ORGANIZATION REPORT NUMBER(S)	
NAME OF PERFORMING ORGANIZATION Naval Postgraduate School	6b. OFFICE SYMBOL (If applicable) Code 54	7a. NAME OF MONITORING ORGANIZATION Naval Postgraduate School	
ADDRESS (City, State, and ZIP Code) Monterey, California 93943-5000		7b. ADDRESS (City, State, and ZIP Code) Monterey, California 93943-5000	
NAME OF FUNDING/SPONSORING ORGANIZATION	8b. OFFICE SYMBOL (If applicable)	9. PROCUREMENT INSTRUMENT IDENTIFICATION NUMBER	
ADDRESS (City, State, and ZIP Code)		10. SOURCE OF FUNDING NUMBERS	
		PROGRAM ELEMENT NO.	PROJECT NO.
		TASK NO.	WORK UNIT ACCESSION NO.
TITLE (Include Security Classification) EXAMINATION OF THE INTERRELATIONSHIP BETWEEN THE STRUCTURE OF FINANCIAL MANAGEMENT AND THE INTERNAL AUDIT FUNCTION WITHIN THE DEPARTMENT OF DEFENSE			
PERSONAL AUTHOR(S) Lis, Frances R.			
TYPE OF REPORT Master's Thesis	13b. TIME COVERED FROM _____ TO _____	14. DATE OF REPORT (Year, Month, Day) 1986, March	15. PAGE COUNT 73
SUPPLEMENTARY NOTATION			
COSATI CODES		18. SUBJECT TERMS (Continue on reverse if necessary and identify by block number)	
FIELD	GROUP	SUB-GROUP	
		Financial Management Function; Internal Auditing; Internal Controls	
ABSTRACT (Continue on reverse if necessary and identify by block number)			
<p>This thesis examines the relationship between comptroller functions and internal audit functions within the Department of the Navy and the Department of the Air Force. Comptroller functions and internal audit functions use two significant control systems used in the Department of Defense to manage scarce resources in a complex organization. They are of critical importance to overall effectiveness of financial management.</p> <p>The organization and nature of the comptroller functions are reviewed and followed by a similar review of the internal audit functions. This study addresses whether or not comptroller functions influence the type of service performed by internal audit.</p>			
DISTRIBUTION/AVAILABILITY OF ABSTRACT UNCLASSIFIED/UNLIMITED <input type="checkbox"/> SAME AS RPT. <input type="checkbox"/> DTIC USERS		21. ABSTRACT SECURITY CLASSIFICATION Unclassified	
NAME OF RESPONSIBLE INDIVIDUAL Prof. Joseph G. San Miguel		22b. TELEPHONE (Include Area Code) (408) 646-2187	22c. OFFICE SYMBOL Code 54Sm

Approved for public release; distribution is unlimited

An Examination of the Interrelationship Between  
the Structure of Financial Management and the  
Internal Audit Function Within the  
Department of Defense

by

Frances R. Davis  
Lieutenant, Supply Corps, United States Navy  
B.S., University of Southern California, 1978

Submitted in partial fulfillment of the  
requirements for the degree of

MASTER OF SCIENCE IN MANAGEMENT

from the

NAVAL POSTGRADUATE SCHOOL  
March 1986

## ABSTRACT

This thesis examines the relationship between comptroller functions and internal audit functions within the Department of the Navy and the Department of the Air Force. Comptroller functions and internal audit functions are two significant control systems used in the Department of Defense to manage scarce resources in a complex organization. They are of critical importance to overall effectiveness of financial management.

The organization and nature of the comptroller functions are reviewed first followed by a similar review of the internal audit functions. This study addresses whether or not comptroller functions influence the type of service performed by internal audit.



## TABLE OF CONTENTS

I.	INTRODUCTION -----	7
A.	BACKGROUND -----	7
B.	PURPOSE AND OBJECTIVE OF THE RESEARCH -----	9
C.	SCOPE, LIMITATIONS, AND ASSUMPTIONS -----	10
D.	RESEARCH METHODOLOGY -----	11
E.	THESIS ORGANIZATION -----	11
II.	BACKGROUND -----	13
A.	INTRODUCTION -----	13
B.	FINANCIAL MANAGEMENT -----	13
	1. Financial Management Structure -----	15
	2. Financial Management Personnel -----	15
	3. Relationship to Management -----	16
C.	OFFICE OF THE COMPTROLLER NAVY -----	19
	1. Command Structure -----	19
	2. Mission -----	20
	3. Organization -----	20
	4. Financial Management Functions -----	22
D.	OFFICE OF THE COMPTROLLER AIR FORCE -----	24
	1. Command Structure -----	24
	2. Mission -----	25
	3. Financial Management Functions and Organization -----	25
E.	COMPARISON -----	27
F.	INTERNAL AUDITING -----	29

G.	DISTINCTION BETWEEN INSPECTOR GENERAL AND INTERNAL AUDIT -----	30
H.	THE NAVAL AUDIT SERVICE -----	32
	1. Mission -----	33
	2. Organization -----	33
	3. Fiscal Year 1985 Statistical Data -----	35
	4. Audit Planning and Scope -----	37
I.	THE AIR FORCE AUDIT AGENCY -----	38
	1. Mission -----	39
	2. Organization -----	39
	3. Fiscal Year 1985 Statistical Data -----	41
	4. Audit Planning and Scope -----	42
J.	COMPARISON -----	42
K.	CURRENT ENVIRONMENT -----	44
L.	INTERNAL AUDITING ENVIRONMENT (TRADI- TIONAL VERSUS OPERATIONAL) -----	45
III.	CAREER PATHING AND TRAINING OF FINANCIAL MANAGERS -----	47
A.	INTRODUCTION -----	47
B.	THE UNITED STATES NAVY -----	47
	1. Civilian Career Paths and Training -----	47
	2. Military Career Paths and Training -----	49
C.	THE UNITED STATES AIR FORCE -----	52
	1. Civilian Career Paths and Training -----	52
	2. Military Career Paths and Training -----	53
D.	INCENTIVES FOR FINANCIAL MANAGERS -----	55
E.	COMPARISON -----	55
F.	CHAPTER SUMMARY -----	56

IV.	ANALYSIS -----	58
	A. COMPARISON OF FINANCIAL MANAGEMENT ORGANIZATIONS -----	58
	B. COMPTROLLER ORGANIZATIONAL STRUCTURES -----	58
	C. RELATIONSHIP BETWEEN INTERNAL AUDITING AND COMPTROLLER -----	60
	D. INTERNAL AUDITING AND MANAGEMENT -----	62
V.	CONCLUSIONS AND RECOMMENDATIONS -----	66
	A. INTRODUCTION -----	66
	B. CONCLUSIONS -----	66
	C. RECOMMENDATIONS -----	67
	D. AREA FOR FURTHER RESEARCH -----	68
	LIST OF REFERENCES -----	70
	INITIAL DISTRIBUTION LIST -----	72

## I. INTRODUCTION

### A. BACKGROUND

The research area consists of an examination of financial management functions and organizational structures within the United States Navy and the United States Air Force, and an analysis of the impact these functions and structure have on the services' internal audit functions. These functions are the comptroller and internal audit functions.

The need to achieve efficiencies and savings in the various military departments is a major issue facing defense managers, comptrollers, and auditors today. Recently, the public has demanded greater accountability from all levels of government for use of tax dollars, and the military services are being challenged to show not only how much is being spent for defense functions but also precisely how efficiently (producing without waste), effectively (producing the desired results), and economically (operating at reasonable cost or at a saving) the business of defense is being carried out. Much of this public concern has been generated by the reports of repeated findings of fraud, waste, and abuse throughout the Department of Defense (DoD).

Concurrently, with the public demand for greater accountability, the executive administration has established a commitment to further increase the national defense. This increase



in resources for DoD proportionately increases the risks of further waste and the need for improved management. Thus there is a new emphasis on the need for DoD managers to do a better job of planning, controlling, and managing the resources entrusted to them.

The need to restore public confidence in all areas of government, especially defense, is an urgent matter confronting decision-makers. In order to achieve this goal, strong policy and program decisions, effectively supported by improved financial management and general management, are very important.

Management has the primary responsibility for the efficient and effective use of government resources. Management should establish measures to assess its own efficiency as well as the effectiveness of its activities. Systems and controls should be established to ensure compliance of its activities with applicable laws and regulations. In addition, management is expected to evaluate its own program performance in a systematic and regular manner.

Next, financial managers are responsible for providing assistance to management in terms of direction and guidance. Financial management functions (e.g., planning, budgeting, program management, accounting, reporting, auditing, and evaluation) must be coordinated and organized to perform in an effective fashion. According to Mintzberg, to successfully accomplish the goals of the organization, managers must be aware of all factors that influence the organization, must

know their relative value, and then must operate in the manner most beneficial to the organization [Ref. 1].

The final line of defense for resource utilization is the internal audit function. It is internal audit's responsibility to review the systems and procedures established by management, to determine program effectiveness, and to determine whether or not management is in compliance with overall rules and regulations. Each of the military services, excluding the United States Marine Corps, has an internal audit agency to provide services to all levels of management through the objective performance of independent evaluation.

The relationship among these three lines of organizational control for resource utilization is the issue to be studied. This study will be useful to general management of the Department of the Navy (DoN) and the managers of the financial management organizations of the Navy at the headquarter's level, and the Auditor General of the Navy in assessing the current system.

#### B. PURPOSE AND OBJECTIVE OF THE RESEARCH

The primary purpose of this study is to conduct an examination of the financial management functions employed by the two DoD comptroller departments in managing the flow and control of government funds within their services and to evaluate the impact, positive or negative, which the comptroller organization has on the type of services provided by the internal auditing agencies.

The specific objectives of this study are to:

1. Descriptively review and identify the basic functions of the comptroller department and examine its organizational structure.
2. Based on experience, training, and perceptions of comptroller personnel and auditor personnel, evaluate their organization and activities.
3. Evaluate whether or not actions can or need to be taken by the comptroller department or at the secretariat level to improve the services which are provided to the service audit agency.

#### C. SCOPE, LIMITATIONS, AND ASSUMPTIONS

In this study, the focus is on the impact that the financial management functional systems of the various services have on the respective operations of each service's internal audit agency. Initially, a comparison of the three military services was to be conducted, but because of the amount of work involved and a time constraint, only the U.S. Navy and the U.S. Air Force were included in the study. The U.S. Marine Corps was not included separately because the Naval Audit Service performs both the Navy and Marine Corps evaluations. Primary focus of the research was at the headquarters level of the studied services: Office of the Comptroller Navy, Office of the Comptroller Air Force, the Naval Audit Service, and the Air Force Audit Agency.

Financial management functional systems were investigated to determine their organizational structure, training of personnel, career pathing of employees (especially military personnel), incentives, and their management style. Once the

environment of the financial management functional system was determined, the effect and impact this environment has on the scope and operational responsibility of the internal audit agency were investigated.

#### D. RESEARCH METHODOLOGY

The research phase of this study began with a definition of the problem to be examined and the scope of the research itself. The research was accomplished primarily through a literature search and interviews.

Materials covering the comptroller and audit service organizations were obtained from DoD sources and reviewed thoroughly to gather background information. Extensive personal interviews and telephone interviews were conducted with personnel involved in all aspects of financial management and auditing in both services studied. Included in these interviews were the Director of Office of Budget and Reports (Navy), members of the Office of the Navy Comptroller staff, the Auditor General of the Navy, Deputy Auditor General of the Navy, Deputy Assistant Secretary Air Force (Accounting and Audit), members of the Office of the Comptroller Air Force, and members of the Air Force Audit Agency.

#### E. THESIS ORGANIZATION

Chapter I briefly introduced the research area and the importance of studying this area. The magnitude of the responsibilities of management, financial management decision



makers, and auditors and the increasing need for the conscientious management and utilization of defense resources within the military were discussed. The objectives and research methodologies were also delineated.

Chapter II provides a description of financial management and internal auditing, and a broad overview of the functions and structures of the Office of the Comptroller Navy, Office of the Comptroller Air Force, the Naval Audit Service, and the Air Force Audit Agency. The mission, objectives, and management perspectives of the two services' financial organizations are examined and compared. In describing the respective functions and structures of the Comptroller offices, the groundwork is laid for a more objective analysis of their impact on respective internal audit agencies.

Chapter III reviews the professional training and career paths of financial managers in the military services.

Chapter IV provides an analysis of the financial management functional systems and their relationship with their internal audit entity. Problems and issues are identified and discussed.

In Chapter V, significant findings of the study are summarized. Conclusions and recommendations are drawn from the interpretation of data identified in free form commentary and interviews. Finally, concluding remarks are made, and potential areas for further research are discussed.

## II. BACKGROUND

### A. INTRODUCTION

The purpose of Chapter II is to provide sufficient background information for a better understanding of the analysis which is contained in Chapter IV. In order to accomplish this objective, the contents of this chapter include:

1. a description of financial management and how it applies to government activities;
2. a broad overview of the Office of the Comptroller within the Department of the Navy and the Department of the Air Force, in order to examine the financial management functions, managers' responsibilities, and organizational structures;
3. a description of internal auditing;
4. a broad overview of the mission and organization of the Naval Audit Service and the Air Force Audit Agency;
5. a general description of the current operational environment in which auditors and managers must manage and account for their resources.

### B. FINANCIAL MANAGEMENT

According to law, each department and agency is responsible for establishing an adequate system of financial management, including planning, budgeting, accounting, and internal control. The Budget and Accounting Act of 1921, as amended, makes the head of each federal department and agency responsible for, and required to comply in, four areas of financial management [Ref. 2:p. 13]:

1. Preparing requests for appropriations and submitting such requests to the Office of Management and Budget;

2. Using cost-based budgets for purposes of administration and operation and for the subdivision of appropriations;
3. Taking action to achieve consistency in accounting and budget classification, synchronization between these classifications and organizational structures;
4. Furnishing to the comptroller general information regarding the powers, duties, activities, organizations . . . as he may require.

The act also requires the head of each agency to establish and maintain [Ref. 2:pp. 13-14]:

1. Systems of accounting and internal control designed to provide full disclosure of the financial results of the agency's activities;
2. Adequate financial information for the agency's management;
3. Effective control over and accountability for all funds, property, and other assets for which the agency is responsible, including internal audit;
4. Reliable accounting results to serve as the basis for preparation and support of the agency's budget request.

In order to meet these requirements set forth by law, financial management systems composed of the following elements have been implemented by governmental departments and agencies [Ref. 2:pp. 14-15]:

1. Planning and program review, including the identification and definition of major planning and program issues in addition to evaluating current programs periodically;
2. Accounting, including the recording, summarizing and reporting of all fiscal transactions by appropriation, program, organizations, and expenses;
3. Budgeting, including the annual preparation, presentation, monitoring, and controlling of funds requested from and appropriated by Congress;

4. Statistical reporting, including statistical and other data evidencing the activity level or accomplishment of the organization;
5. Internal control and audit, including the procedures for monitoring, reviewing, and safeguarding the organization's resources.

1. Financial Management Structure

Each governmental department performs basically the same financial management functions, but because there is no standardized form for organizing and defining responsibilities, their organizational structures vary. In DoD, planning, programming and evaluation (audit) functions are generally independent of the financial (budgeting) and accounting functions.

2. Financial Management Personnel

Regardless of how the organization is structured, financial managers must ensure efficient, effective, and economical performance. Analytic techniques, management information systems, and integrated financial systems are tools used by financial managers to plan, monitor, and report on performance. Another requirement is competent people. Experienced people with backgrounds in accounting, budgeting, as well as management and cost analysis are a prerequisite to the fulfillment of any agency's financial management function. In order to increase the productivity of its financial personnel, programs for professional development are a necessity.



### 3. Relationship to Management

According to Sathe<sup>1</sup>, the comptroller has two seemingly contradictory responsibilities. On the one hand, the comptroller is responsible for providing assistance in the business decision-making process. Managers depend on the sound financial analysis and control that the comptroller provides.

[Ref. 3:p. 1] To perform this role, comptrollers must be knowledgeable of the program decisions that are made by management, the problems management faces, the feasible alternatives, and the data required for complete statistical and financial accounting of program activities. In this capacity as a management consultant, the comptroller performs an invaluable service by anticipating the informational needs of management and by providing plans of actions, reporting mechanisms, and statements of accountability.

On the other hand, the comptroller is also responsible for the integrity of the financial information provided to external agencies (e.g., Internal Revenue Service), and for ensuring that control practices conform to corporate policy and procedures. To discharge these responsibilities effectively, the comptroller must retain a sense of objectivity and independence from management. [Ref. 3:p. 1]

In the military services, the authority for decision-making is decentralized among many managers at different

---

<sup>1</sup>Sathe focuses on comptrollers in large corporations, but comptroller responsibilities are similar in both governmental and non-governmental agencies.

levels throughout the services. The comptroller function has to serve the decision-making needs of the low level managers as well as the informational needs of top level managers. Designing comptroller organizations is, therefore, itself a form of decentralized control.

Comptroller organizations within the military services are also decentralized operations composed of three distinct levels: headquarters, major commands, and base or activity. At the headquarters level, financial management goals and objectives are defined and major policies, guidance, and procedures are promulgated. According to Warren, Comptrollers at the major commands level:

. . . translate the headquarters' guidance and demands into procedures and projects to be accomplished by the base level organizations . . . and also consider the requirements of the base level organizations when interacting with the headquarters. [Ref. 4:p. 18]

Operating within the goals and objectives established by headquarters and translated by the major commands, the base level comptrollers are responsible for accomplishing required jobs and projects. Base level comptrollers report directly to and are evaluated by the commanding officer of the base. Comptrollers at major commands have the same relationship with the commanding officer or commander of the major command.

At the headquarters level each service has an Assistant Secretary (Financial Management) at the secretariat level responsible for overall policy and procedures concerning financial management, but it is the Office of the Comptroller that

is the workhorse in the financial area for the services. Because the staff of the Assistant Secretary is small, it depends extensively on the Office of the Comptroller. However, the Office of the Comptroller has a major responsibility for supporting the needs of the services. Headquarters comptrollers must work more with organizations outside of their immediate environment such as the Office of the Secretary of Defense, Office of Management and Budget, and Congress.

The Office of Management and Budget (OMB), an agency of the Executive Office of the President, issues the annual instruction for the preparation and submission of the budget and of appropriation language recommendations by all government agencies. Jointly with the Office of Secretary of Defense (OSD), the OMB reviews and holds hearings on each military service estimates. Witnesses (e.g., Comptroller, Chief of Staff, Chief of Naval Operation) from each service appear to justify the estimates. OSD determines the final budget estimates for DoD, and OMB recommends to the President the final amounts to be incorporated into the President's budget for submission to the Congress.

San Miguel and Govindarajan [Ref. 5] examined the relationship between two internal control systems (the comptroller function and internal audit function) in relatively large decentralized firms and concluded that there existed a contingent relationship between the division comptroller's independence from the division manager and the duties and

responsibilities assigned to the internal audit function. In firms where the division comptroller was less independent the internal audit functions were employed to perform a significantly greater amount of financial, compliance auditing than firms with a more independent division comptroller. One of the main questions to be addressed by this study is if similar relationships exist in the military services.

In order to determine whether or not the comptroller structure in the military services affect the type of auditing performed, the Office of the Comptroller Navy and Air Force will be examined and then compared.

#### C. OFFICE OF THE COMPTROLLER NAVY

According to the provisions of 10 United States Code 5061, the Secretary of the Navy established the Office of the Comptroller of the Navy on June 1, 1950. The comptroller is responsible for financial management of the Navy, including budgeting, accounting, progress and statistical reporting, administrative organization structure, and related managerial procedures. [Ref. 6:p. 208] The Comptroller of the Navy is a civilian appointed by the President with Senate approval, and the Deputy Comptroller is a military officer selected through the normal flag officer placement process.

##### 1. Command Structure

The Assistant Secretary of the Navy (Financial Management) is the Comptroller of the Navy and is responsible for all matters related to financial management of the

Department. Under the Comptroller, the Deputy Comptroller of the Navy (in addition to other duties) serves as an adviser and assistant to the Chief of Naval Operations and the Commandant of the Marine Corps with respect to financial and budgeting matters [Ref. 6:p. 206]. Orders and instructions issued by the Comptroller in execution of the duties assigned by law or by other higher authority directive are considered as coming from the Secretary of the Navy [Ref. 7:p. 1-1].

## 2. Mission

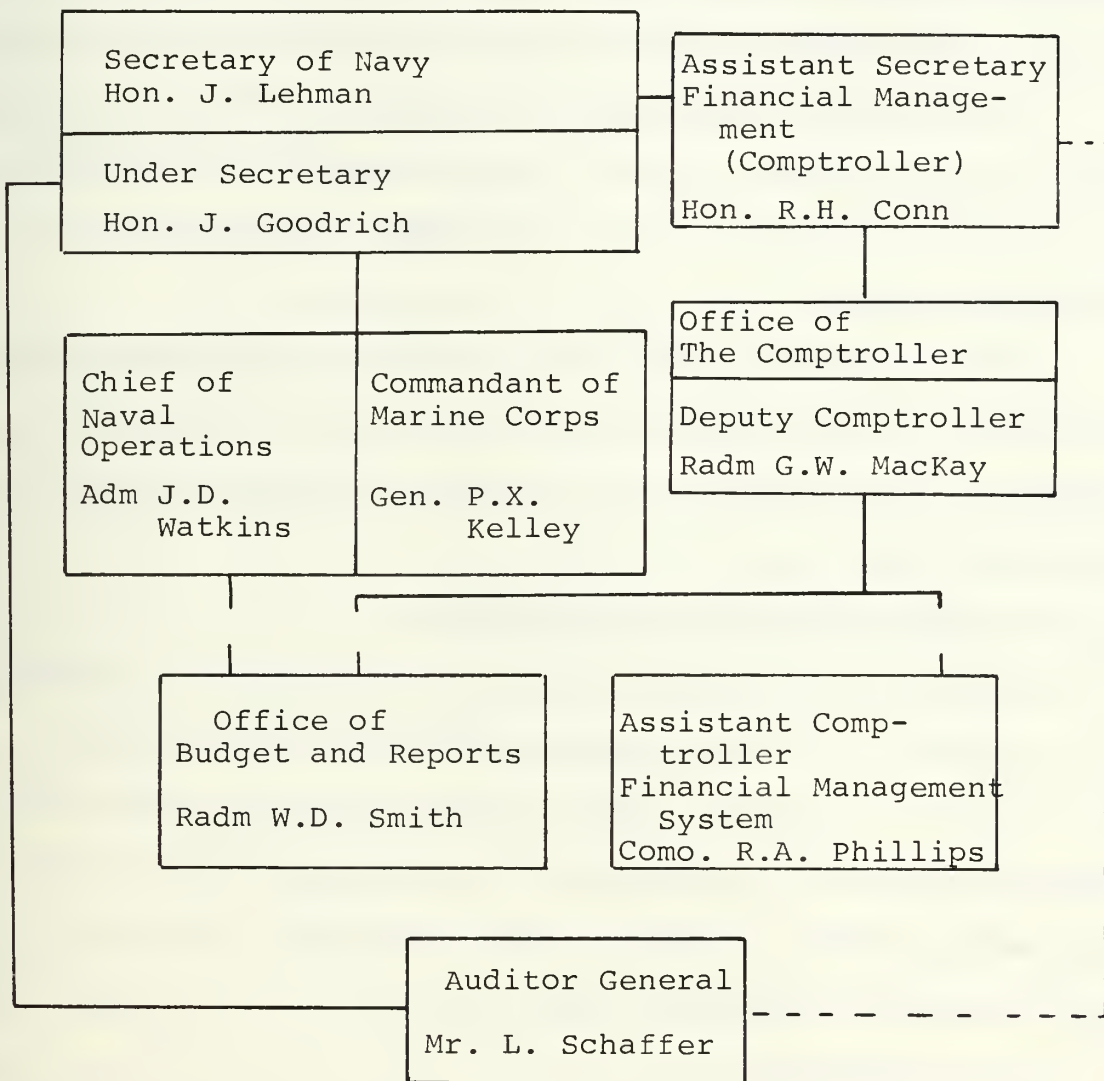
The mission of the Comptroller is to formulate principles and policies and prescribe procedures and systems which will exercise effective control over the financial operations of DoN. Control is accomplished through the application of sound accounting principles, progressive modernization of the programming and budgeting process, financial management systems development and financial analysis of DoN. [Ref. 7:p. 1-1]

## 3. Organization

The Comptroller has three assistants to help perform the financial management functions: the Deputy Comptroller, a Rear Admiral; the Director of Budget and Reports, a Rear Admiral; and the Assistant Comptroller, Financial Management Systems, a Commodore. Figure 1 shows the organizational structure of the Navy's financial management.

The Deputy Comptroller assists the Comptroller in all matters as directed and commands the Office of the Comptroller





Legend:

----- Policy Guidance

\_\_\_\_\_ Management line of Authority

Figure 1. Navy Organization of Financial Management

of the Navy (NCD). NCD performs independent cost analyses for Navy programs, in addition to performing the administrative and fiscal activities for the Office of the Comptroller.

The Director of Budget and Reports serves in a dual capacity as the budget officer for the Secretary of the Navy and as the Director for Fiscal Management for the Chief of Naval Operations.

The Assistant Comptroller, Financial Management Systems (known as NCF) designs, develops, tests, implements, and monitors the execution of financial management systems throughout DoN.

#### 4. Financial Management Functions

The Comptroller has the responsibility for coordinating and integrating several financial functions which provide the Secretary of the Navy with a sound financial system that will contribute to the efficient, economical, and effective management of Navy and Marine Corps programs. Included in these financial management functions are:

##### a. Budgeting

The Comptroller participates in the formulation, presentation, and execution phases of budgeting. In the formulation phase, the Comptroller (in his capacity as the Director of Budget and Reports) provides the major guidance and technical direction with regards to preparation and review of the budget. During presentation to the Office of Secretary of Defense and Congress, the Comptroller is the major spokesman

for Department of Navy budgeting matters. During the execution phase the Comptroller has responsibility for allocating funds to receiving activities, reviewing actual financial performance against the budget, and reviewing and adjusting allocations if the need occurs.

b. Internal Audit

The Comptroller is responsible for providing financial management policy and technical guidance to the Auditor General of the Navy, who is responsible for designing, and implementing internal audits within the Department of the Navy. These internal audits are performed by the Naval Audit Service and are designed to provide Navy management with an independent objective evaluation of management practices, procedures, and programs.

c. Accounting and Reporting

The Comptroller is responsible for the principles, policies, and procedures to be followed in fiscal accounting, cost accounting, capital and operating property accounting, disbursing, working capital fund, management fund and non-appropriated fund accounting, and the financial reporting systems throughout DoN.

d. Planning

The major program planning for the Department of the Navy is performed in the Office of the Chief of Naval Operations in the Navy Program Planning Office (OP-090).

This office integrates planning, programming, budgeting, and appraisal within the Navy.

e. Training

In the Department of the Navy, the Comptroller is the designated functional head for financial management education, training, and career development.

D. OFFICE OF THE COMPTROLLER AIR FORCE

According to the provisions of 10 United States Code 136, 10 United States Code 8014, and Secretary of the Air Force Order 100.1, the position of the Comptroller of the Air Force is required. These statutes and directives require that the Air Force have a Comptroller and Deputy Comptroller, who are appointed by the Secretary of the Air Force. If the Comptroller is a military officer then the Deputy Comptroller has to be a civilian. There is no written policy on the length of service in these capacities. The military officers normally rotate every three to five years, but the civilian may hold the office anywhere from five to ten years or longer.

The Air Force Comptroller organization is responsible for acquiring and managing the necessary financial resources required by the Department of the Air Force to accomplish its mission.

1. Command Structure

The Comptroller of the Air Force functions primarily as a coordinating level on policy matters representing the corporate structure, and is directly responsible to the

Assistant Secretary of the Air Force for Financial Management with concurrent responsibility to the Chief of Staff. [Ref. 6:p. 179]

## 2. Mission

The mission of the Office of the Comptroller of the Air Force is to furnish professional financial management assistance to the Secretary, the Under Secretary, the Assistant Secretaries of the Air Force and the Chief of Staff.

## 3. Financial Management Functions and Organization

The Comptroller organization is a functional organization, and the design of its organizational structure is directly related to its functions. Figure 2 shows the formal structure of the Comptroller organization.

The Comptroller of the Air Force, a Lieutenant General, is assisted by the Director of Budget, a Major General; the Assistant Comptroller for Accounting and Finance, a Brigadier General; and the Director of Cost and Management Analysis, a Colonel.

The Air Force Accounting and Finance Center (which is headed by an assistant comptroller and located in Denver), is a major command established to support the Comptroller organization. Looking at the formal command chain, the commander of that organization reports to the Chief of Staff of the Air Force. Informally, the Comptroller controls that organization through the Assistant Comptroller for Accounting and Finance.

Even though auditing is a function of the Comptroller organization, the institution that performs that function,



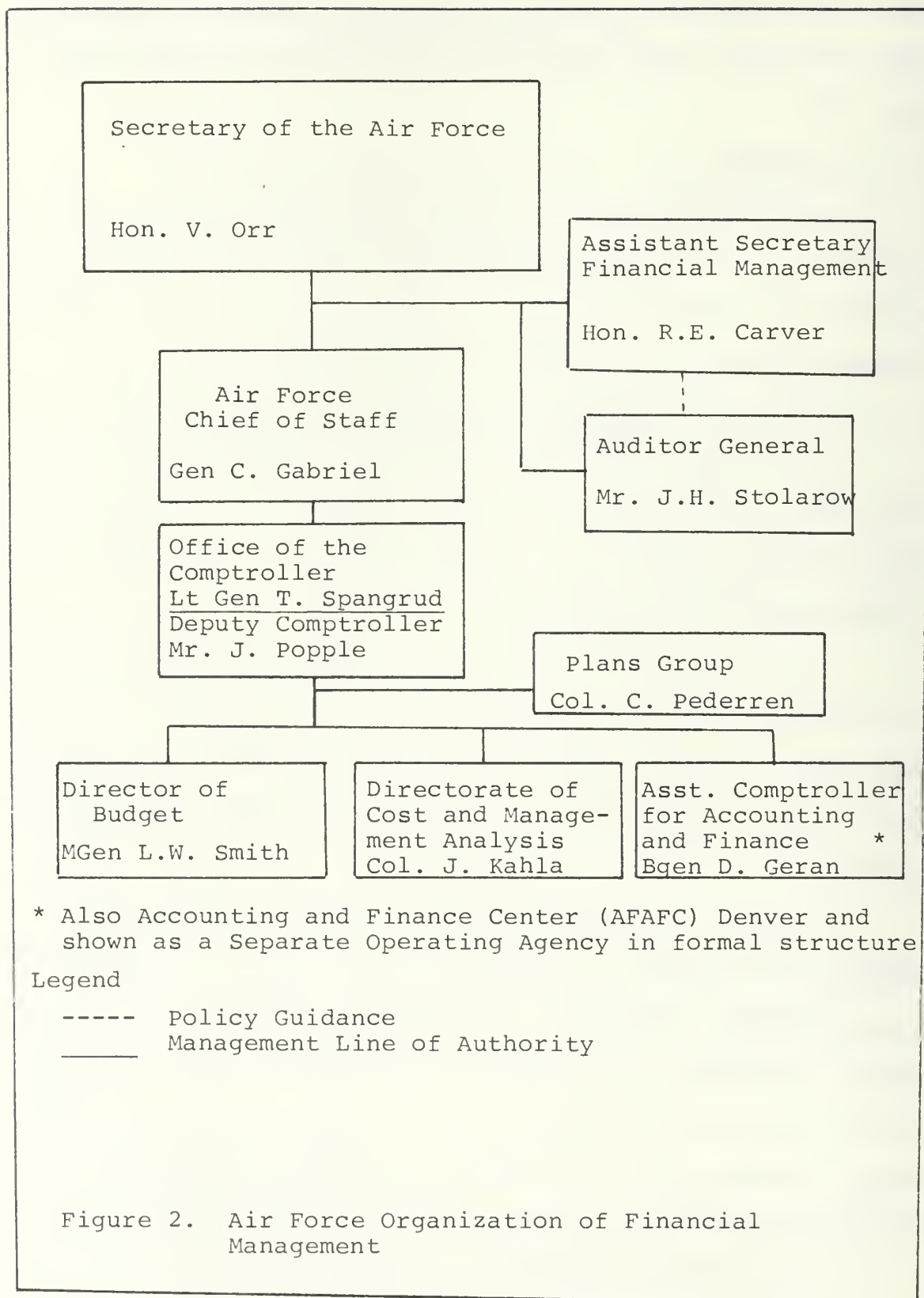


Figure 2. Air Force Organization of Financial Management

the Air Force Audit Agency, has a formal command and authority line directly to the Secretary of the Air Force. The Comptroller organization has the responsibility for providing only technical guidance to the audit agency in this formal chain.

The Air Force Comptroller Department has a Comptroller Plans Group which prepares the Comptroller Action Plan and Long Range Objective Plan for the Comptroller organization. Program planning is done by the Office of the Chief of Staff.

#### E. COMPARISON

The missions and objectives of the Navy and Air Force Comptroller Offices are similar. The differences between the two offices are in how the organizations are structured and manned.

Unlike the other military services, the Assistant Secretary of the Navy (Financial Management) and the Navy Comptroller positions are held by the same individual who is an appointed civilian. The Deputy Comptroller of the Navy, however, is a Rear Admiral. By contrast, in the Air Force, the Assistant Secretary (Financial Management) is an appointed civilian, the Air Force Comptroller is a Lieutenant General, and the Deputy Comptroller is a civilian.

Both Comptroller offices consist of three main divisions or directorates. In the Navy Comptroller Headquarters there are approximately 200 employees including about 31 military personnel. Each of the three comptroller divisions is headed by a military director with a civilian as an assistant or

associate director. The military officer is rotated approximately every three years, and the civilian provides the continuity. (Normally at this level, there are fewer available positions for civilians, and there is not a limit on the length of service in these billets.) Navy military officers in these positions are selected through normal military selection channels based on operational knowledge (financial management, accounting, or budgeting knowledge is not a major requirement) and availability of Navy officers. The program and budget analysts are civilian employees.

In the Air Force Comptroller Department there are approximately 228 employees including about 82 military personnel. Similar to the Navy, the three comptroller divisions are headed by military directors with civilians as second in command assistants. Air Force military directors, however, follow a financial career path and normally one of these directors goes on to become Comptroller of the Air Force. Civilians in top level jobs are faced with similar circumstances as in the Navy, in that they provide the continuity and are normally in the same jobs for extended periods of time.

A major difference between the Navy and the Air Force Comptroller offices is structural organization. The Air Force Comptroller comes under the Chief of Staff Air Force with assistance from the Assistant Secretary (Financial Management), but the formal structure for the Navy Comptroller is at the Secretariat level. It is arranged in this way because the

Navy Comptroller also supports the Marine Corps, and therefore the Marine Corps and the Navy will receive equal consideration at this level. However, the Office of Budget and Reports also has the Chief of Naval Operation as one of its superiors.

#### F. INTERNAL AUDITING

The legal requirement for audit of a government agency is set forth in Section 113, Part II of the Budget and Accounting Procedures Act of 1950:

The head of each executive agency shall establish and maintain systems of accounting and internal control designed to provide . . . effective control over and accountability over all funds, property, and other assets for which the agency is responsible including appropriate internal audits. [Ref. 2:p. 156]

As a part of an agency's system of internal control, the head of the agency has the authority and responsibility for establishing an audit capability.

Internal audits are examinations of an organization's programs and activities by auditors who are employees of that organization. The scope and method of performing internal audit vary with the desires of the organization, and applicable laws and regulations.

Every government agency is required to establish an audit function that will provide the valuable services of reviewing, evaluating, and reporting on compliance with management's plans, policies, procedures, practices and regulations, and determining whether resources are being expended and programs operated in the most efficient, effective, and economical manner.

The audit function is independent of the officials who are directly responsible for the activities or programs being audited. To provide this independence, the audit function is normally responsible to the highest practical organizational level, preferably the agency head or a principal official reporting directly to the agency head.

The Naval Audit Service provides this service for the Department of the Navy, and the Air Force Audit Agency provides the service for the Department of the Air Force.

#### G. DISTINCTION BETWEEN INSPECTOR GENERAL AND INTERNAL AUDIT

Another group that provides internal oversight for the operations of the services is the Inspector General. The Navy Inspector General system is decentralized and designed primarily to assess operational and administrative effectiveness. The main elements of the system are the Navy Inspector General and individual commanders at the Navy's various administrative and operational levels of command.

The Navy Inspector General, who is a military member of the Chief of Naval Operations Staff, performs inspections only at the upper levels of the Navy and accounts for about twenty percent of the inspection system. Other duties include coordinating and providing broad supervision and general guidance for all Navy inspections, investigating noncriminal improprieties, and assisting in resolving personnel grievances.

The remaining eighty percent of inspections coverage is handled by commanders of each organizational level who inspect



the headquarters of their immediate subordinate activities. Commanders usually designate chief inspectors or inspectors general who supervise inspections in addition to their regular duties. Temporary inspectors do the work and then return to their regular duties.

The Inspector General of the Air Force, a military officer, serves the Secretary and Chief of Staff of the Air Force by reporting on the strengths and weaknesses of all Air Force activities and making recommendations for correcting problems. Specifically, the Inspector General is responsible for all Air Force inspections; for the safety, investigative, counter-intelligence, and complaint functions; and for helping ensure that Air Force resources are effectively and efficiently managed. These responsibilities are broader than those of the Inspector General of the Navy.

Three distinct organizations are under the direct control of the Air Force Inspector General: the Inspection and Safety Center, the Office of Security Police, and the Office of Special Investigations. In addition to these organizations, the system includes subordinate inspectors general assigned to local commands and separate operating agencies. Ninety percent of inspections personnel are at this level. They receive policy guidance from the Air Force Inspector General and their inspection duties are in addition to other assigned duties.

## H. THE NAVAL AUDIT SERVICE

In 1949, Congress authorized amendments to the National Security Act of 1947 and thereby provided for the establishment of an internal audit capability in each military department and in the Department of Defense. [Ref. 8]

The Naval Audit Service was established in 1952 as the centralized internal audit agency for the Navy and Marine Corps and reported to the Assistant Secretary of the Navy (Comptroller) [Ref. 9]. Currently, in accordance with the Inspector General Act of 1978, the Naval Audit Service has been designated to report to the Under Secretary of the Navy.

The Auditor General has a dual designation. In addition to being Auditor General of the Navy, he also serves as the Director, Naval Audit Service. As Auditor General, he is a Secretariat staff assistant whose main responsibility is to ensure proper reporting of audit findings. As Director, Naval Audit Service, he commands the resources required to produce the audit reports.

The Auditor General is a civilian appointed by the Secretary of the Navy. The first civilian Auditor General was appointed in 1978 and served in the position for seven years. There is not a limit on the number of years an Auditor General may serve; however, the current Secretary of the Navy advocates the rotating of top level Senior Executive Service personnel every five years [Ref. 10]. The Auditor General is assisted in his command efforts by a Captain who

serves in a dual capacity as Deputy Auditor General and Deputy Director, Naval Audit Service. There is no requirement that the Deputy has a background in financial management. The Deputy is usually a line officer whose strength is operational knowledge.

## 1. Mission

The mission of the Naval Audit Service is to provide service to management at all levels of the Navy and Marine Corps by means of independent and objective evaluation of programs, activities, systems, procedures, and the accomplishment of management objectives. The Naval Audit Service performs its mission by developing internal audit principles and policies, by conducting internal audits of all Department of the Navy activities, and by providing reports of internal audits which recommend corrective action to the audited activities and their cognizant commands. There are three categories of audits required by the General Accounting Office that are used by the Naval Audit Service to provide auditing services to management: financial and compliance, economy and efficiency, and program results. Normally, an audit is a blend of characteristics from all three categories. (Specific statistical data on the audit work percentages done in each category was not available.)

## 2. Organization

The Naval Audit Service is headquartered in Falls Church, VA. As shown in Figure 3, there are four regional

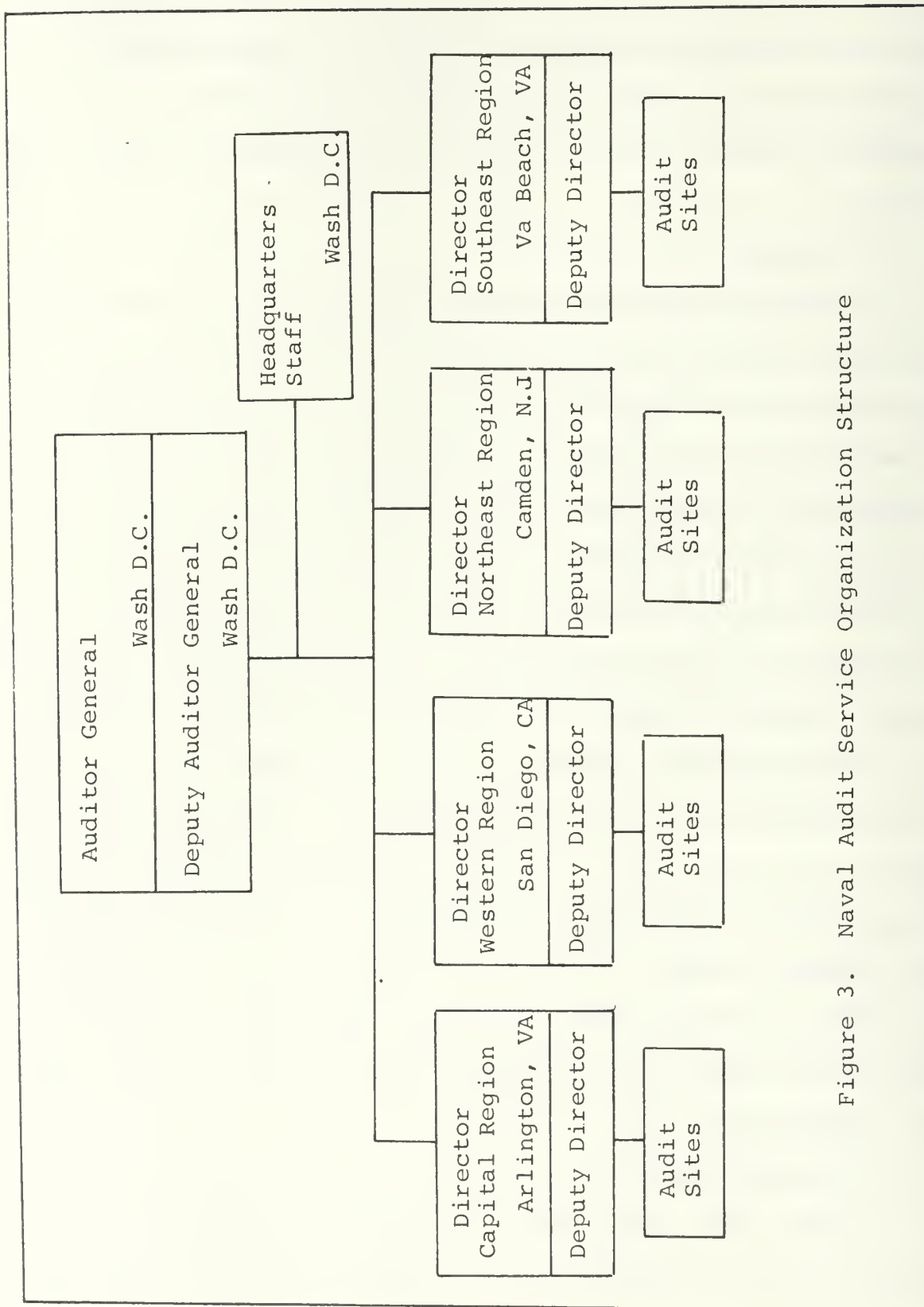


Figure 3. Naval Audit Service Organization Structure

audit offices: the Western Region, San Diego, CA; Capital Region, Crystal City, VA; the Northeast Region, Camden, NJ; and the Southeast Region, Virginia Beach, VA. Each region is headed by a Director who is either a Navy captain or a Marine Corps colonel. The Directors are normally Supply Corps officers with financial management subspecialty codes. The reporting chain for these military officers is to the Under Secretary of the Navy via the Director, Naval Audit Service and the Auditor General of the Navy. The regions have subordinate branch audit offices and selected resident audit teams. Traveling audit teams from the regions conduct overseas work; however, some overseas locations have their own resident audit teams.

### 3. Fiscal Year 1985 Statistical Data

In Fiscal Year 1985 (FY 85), the Naval Audit Service issued 341 audit reports. The Naval Audit Service performs the following types of audit works:

1. Activity audits. There are three types of activity audits. A audits, performed on a three to five year cyclical basis; B audits, phased or periodic which look at functional areas vice entire activity; and C audits, continuous audit sites at activities such as system commands and other large commands;
2. Multilocation audits (T audits): performed vertically throughout Navy to provide a regional or Navy-wide assessment of performance trends and accomplishments.
3. Systems reviews (D audits): evaluate operational and developmental automated systems.
4. Project management reviews (K audits): evaluate management and control of major Department of Navy procurement projects as well as compliance.



5. Commercial activity reviews (V audits): audits and certifies Navy in-house cost estimates.
6. Unannounced disbursing audits (X audits): surprise verification of disbursing officer cash account and verification program.
7. Command request audits (S audits).
8. Naval Investigative Service assists (G audits).

The number and percentages for each of these types of audit reports (A-G) during FY 1985 are presented below:

<u>Type Reports</u>	<u># of Reports</u>	<u>% of Effort</u>
A	83	24
B	3	1
C	66	19
D	7	2
K	2	1
T	18	5
S	37	11
V	37	11
X	23	7
G	<u>65</u>	<u>19</u>
	341	100

Types A, C, and G account for over sixty percent of the audits. The percentage of types B, D, and K are relatively small.

During this period, the Naval Audit Service budget was \$25 million. Of this amount, \$22 million was for civilian pay and \$1.8 million was for travel. The Navy's budget for the same period was \$95.6 billion. However, Navy dollars spent in FY 85 totaled \$109 billion.

In FY 85 there were 481 civilian auditors in the Naval Audit Service. In addition there are 37 military officers (Navy 34, Marine Corps 3) authorized for the audit service.

Auditors normally enter the Naval Audit Services as a General Schedule grade 5 or 7 with no prior government experience. They have a basic four year college degree in accounting, or 24 semester hours of accounting, a certification, or equivalent experience. Specific background statistical information on auditors was not available. However, accounting backgrounds are the norm and over ninety percent are college graduates. Attrition quantity (105) data was available in combined form for both FY 84 and FY 85.

Military officers are mainly Supply Corps officers. Financial management backgrounds are not mandatory. Usually, it is the officer's second tour of duty, and the officer is at the O2 or O3 level. All Supply Corps officers get training in disbursing and accounting during a six month basic Supply Corps course which is mandatory.

The Navy uses mainly civilian auditors to conduct its internal audits. The reason for this is to reduce the amount of military-to-military contact and to maintain greater independence and objectivity. Because of internal agency pressures that are exerted within the military chain of command, the credibility of audit reports could be questionable.

#### 4. Audit Planning and Scope

Annually, the Naval Audit Service sends letters to a high level distribution list (e.g., Under Secretary, Chief

of Naval Operations, Assistant Secretaries) to solicit future audit topics. In addition, during an audit auditors are searching for new areas to review and may submit proposed topics to the Naval Audit Service Headquarters' planning divisions.

Audit topics are subjected to risk assessments, jobs are prioritized, and an annual audit plan developed. Twenty percent of total audit work is unscheduled, special request work.

In 1985, the Naval Audit Service scheduled 680,000 audit hours (1500 audit hours per auditor). The scope of an audit is determined by the audit service. The Navy Audit Service has over 35 audit programs that are used to audit specific functional areas.

#### I. THE AIR FORCE AUDIT AGENCY

The Air Force Audit Agency was originally established as the 1030th United States Air Force Auditor General Group on 1 July 1948. The agency was redesignated as a separate operating agency under the Comptroller of the Air Force on 31 December 1974. It was transferred to directly under the responsibility of the Secretary of the Air Force with staff supervision from the Assistant Secretary of the Air Force for Financial Management on 24 July 1978. [Ref. 11:p. 1] The Auditor General reports to the Secretary of the Air Force and has direct access to the Chief of Staff. In 1978, the Auditor General position

was civilianized, and there has been only one civilian Auditor General.

### 1. Mission

The mission of the Air Force Audit Agency as stated in Air Force Regulation 23-38 is:

. . . to provide all levels of Air Force management with independent, objective, and constructive evaluation of the economy, effectiveness, and efficiency with which managerial responsibilities (including financial, operational, and support activities) are carried out.  
[Ref. 12]

### 2. Organization

The Air Force Audit Agency is headquartered at Norton Air Force Base, CA. As shown in Figure 4, it is comprised of two staff directorates (Operations and Research Management) and three line directorates:

1. The Acquisition and Logistic Directorate, located at Wright-Patterson Air Force Base, OH, directs the development and management of audits relating to supply, maintenance, acquisition, weapon systems, and installation-level logistic concerns.
2. The Forces and Support Management Directorate, located at Norton Air Force Base, CA, directs the development and management of audits relating to personnel and support services, comptroller and nonappropriated fund activities, automatic data processing, force readiness, and communications and transportation functions.
3. The Field Activities Directorate, at Norton manages installation-level audit work at approximately 80 area audit offices located at major Air Force installations worldwide. Supervision of the audit offices is exercised through five geographic region offices located at Andrews AFB, MD (Northern); Langley AFB, VA (Southern); Offutt, AFB NE (Central); McClellan AFB, CA (Western) and Ramstein AB Germany (European).

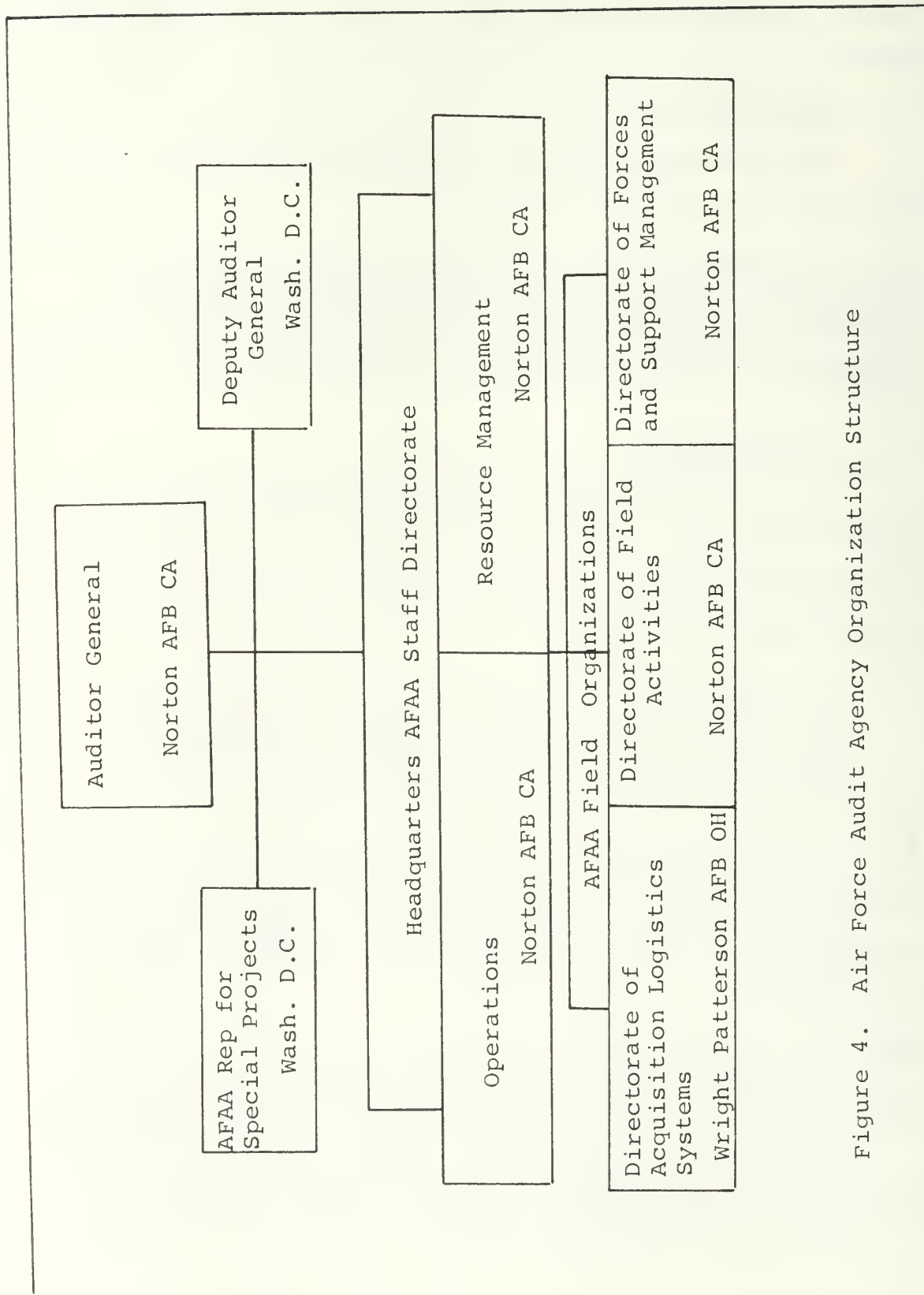


Figure 4. Air Force Audit Agency Organization Structure



### 3. Fiscal Year 1985 Statistical Data

The Air Force Audit Agency has two procedures for reporting audit results to Air Force Management:

1. Reports of audits containing the overall results of centrally directed audit efforts (audits performed concurrently at several locations) are addressed to top major command and Air Staff management levels. In FY 85 ninety of these multilocation reports were issued. These reports normally address the efficiency and economy of Air Force operations and the results achieved to stated objectives.
2. Reports of audit containing results of installation level audits are addressed to local commanders. During FY 85, 1,708 installation-level reports were issued. These reports normally address compliance with laws and regulations and efficiency and economy of local operations. Air Force Audit Agency auditors also perform the internal review function for the Air Force.

The budget of the Air Force Audit Agency for FY 85 was \$33.6 million, which included \$30 million for civilian pay. During this same period, the Air Force budget was \$99.4 billion and \$82 billion was actually spent.

The Air Force Audit Agency consists of approximately 1,100 employees with a civilian/military ratio of seventy five percent to twenty five percent. This includes 789 auditors of which 617 are civilian and 172 are military. Ninety seven percent of the auditors have at least one college degree; forty one percent also have graduate degrees. In addition, thirty one percent also have professional certifications as certified public accountants, certified internal auditors, or certified information system auditors.

Most of the military officers have business, accounting, or management degrees. Civilians are required to have accounting

degrees or equivalent experience. On-the-job training is provided for all auditors.

#### 4. Audit Planning and Scope

The Air Force Audit Agency determines what activities to audit through surveys of activities and from broad statements of concerns with justification by Air Force management. These audit "issues" are set forth in a yearly planning guidance document, and audit topics and subjects are initiated based on these "issues." In FY 85 thirty nine percent of audit workload was requested or directed by Secretary of Air Force or Congress.

Typically, the auditor surveys an area, performs a limited test, then develops the audit program to provide necessary coverage of problems and causes. Auditors determine the scope of audit.

#### J. COMPARISON

Both the Naval Audit Service and the Air Force Audit Agency are headed by a civilian director with a military deputy. The Navy Auditor General reports to the Under Secretary of the Navy. Both are located in the Washington, DC area. The Air Force Auditor General reports to the Secretary of the Air Force, but the two are geographically separated. While the Auditor General is located in California, the Deputy Auditor General is located in Washington, DC, with the Secretary of the Air Force. Such an arrangement suggests a greater degree of autonomy for the Air Force Auditor General.

Both auditor generals are appointed by the Secretary of their respective service. Since the positions were civilianized in 1978, the Navy has had two civilians as auditor general and the Air Force has had only one civilian as auditor general. The Secretary of the Navy has a stated policy of rotating Navy Senior Service Executives every five years, but the Air Force has no such policy.

With total service budgets just about equal, the Air Force Audit Agency has a larger budget (\$8 million more), issues about five times as many audit reports, conducts four times as many multi-location audits, and has more auditors, both civilians and military.

A major difference is that the Air Force does not have a separate internal review capability. The Air Force audit agency provides this capability to the local installations, whereas the Navy has its own internal review program performed by command staff. This may account for the large difference in the number of audit reports published: 1798 for the Air Force and 341 for the Navy.

Another key difference in the two agencies is the way they are structured. The Navy is divided into four regions and each region performs the entire gamut of audits. The Air Force has centralized its functional capabilities at two geographically separate activities, and supports all Air Force activities from these two locations.

Still another difference is the method in which audit topics are selected. The Navy solicits specific audit topics and include these topics in its audit plan. The Air Force solicits audit "issues," which allows for more flexibility since the Air Force Audit Agency is not locked into a specific audit plan and can accommodate management requests without negatively affecting plans. (The General Accounting Office operates in much the same manner as the Air Force.)

#### K. CURRENT ENVIRONMENT

Recently, while other federal agencies and programs were undergoing drastic reductions in resources, DoD was receiving substantial new sums of money. This resulted in intense scrutiny of the defense organizations by the American public and Congress who were greatly assisted by the media. Numerous cases involving fraud, waste, and abuse in the military services have received intense media attention.

In 1982 Congress enacted the Federal Manager's Financial Integrity Act, 31 U.S.C. 3512(b) and (c), in response to the continuing disclosures of waste, loss, unauthorized use, or misappropriation of assets across a wide spectrum of government operations, which were largely attributable to serious weaknesses of agencies' internal controls. Consequently, pressure was placed on management, financial managers, and auditors of the services to correct the blatant mismanagement of government resources, and to achieve greater efficiencies and savings.

Each military service was required to implement the act, and their respective Comptroller shops were designated action officers with support coming from the audit agencies.

With the recent passage of the Gramm-Rudman Act<sup>2</sup>, (formally known as the Balanced Budget and Emergency Deficit Control Act of 1985) there is cause for new consternation in the military organizations. One effect already is clear: defense spending will be cut a small percent this year with higher cuts in future years. This threat of fewer available resources is another onus with which financial managers must contend. The environment is a challenging one, and in order for the military services to meet the challenge financial managers must actively seek to make improvements in financial management functions (e.g., budgeting, accounting, and reporting). The internal auditors must assure that the management systems are operating as intended and that results, positive or negative, are being fully disclosed at all levels of the organization.

#### L. INTERNAL AUDITING ENVIRONMENT (TRADITIONAL VS OPERATIONAL)

According to Brown and Williams, the auditing process is continuing to evolve. Traditional type auditing (financial and compliance auditing) still has importance, but operational, performance or management auditing is receiving more and more attention. Today's auditor has to know more than how to use

---

<sup>2</sup>Gramm-Rudman Act is a plan to balance the budget by 1991.



an adding machine and perform routine audit procedures. The auditor must be proficient in research methods and techniques, analysis, and automated data processing. Not only have the auditor's methods changed, so has the scope. Because there was very little interest in audit reports, auditors used to print an audit report for the audited agency and one for the file. Today hundreds of copies of operational audits are printed. The reports are read and used by Congress, congressional staff, executive officials, newspapers, interest groups, students and professors, and the general public. [Ref. 13]

Times are not only busier for the internal auditor, but also more difficult with more responsibility and visibility. Auditors are expected to produce quality reports which lend themselves to implementation. What they report must be useful to management. The presentation of data only is no longer satisfying. Audit reports are expected to lead to corrective action, to change, and to improvement.

### III. CAREER PATHING AND TRAINING OF FINANCIAL MANAGERS

#### A. INTRODUCTION

An organization is a reflection of the people who perform its daily activities. In 1973 a former Deputy Assistant Secretary of Defense for Systems Policy and Information stated:

The supply of people in the Department of Defense financial management community who have breadth of experience qualifying them unquestionably for the important and challenging top Comptrollership jobs throughout defense is disappointingly small. [Ref. 14]

Because of statements similar to this and because of the amount of financial resources and the public's trust in those assigned as stewards over these resources, it is imperative that the military continue to develop qualified and competent financial managers. Challenging, rewarding career paths and high level training must be made attractive and appealing to attract and keep dedicated military and civilian personnel.

#### B. THE UNITED STATES NAVY

##### 1. Civilian Career Paths and Training

The Civil Service Reform Act of 1978 (Public Law 95-454) paved the way for civilian career programs throughout the federal agencies. The Navy responded with the Navy Civilian Financial Management Career Program, which is operated at the activity level (e.g., individual Naval Stations, Naval Air Stations). Managers at the activities are responsible for identifying, selecting, and nominating civilian employees

for career training programs. The funding for these programs also comes out of the local activity's budget. However, the Navy does offer one program, its graduate study program, that is funded on a centralized basis. Civilian employees in General Schedule (GS) grades 9 through 15 may participate in this program through acceptance by civilian colleges and universities or the Naval Postgraduate School if approved by a Financial Management Career Management Committee. The employee is released from his job for one year with pay and a central fund provides for the tuition and various other fees. (Statistics on the number of civilians using this program were not available.)

In addition, the Navy's program has identified certain courses which would enhance the comptroller civilian careerists. These courses (e.g., the Professional Military Comptroller Course, the Navy Practical Comptroller Course) are usually offered by Office of Personnel Management, the Navy, the Army, and the Air Force. Normally, the selected courses stress managerial functions rather than the technical functions.

The civilian employee is required to establish an Individual Development Plan (IDP), which lists the courses, training, and other educational needs of an employee. The IDP is the tool used by management to ensure that the employees obtain the necessary skills and knowledge required to function in a competent manner. Usually, there are more requirements for civilian training than there are resources available.

It is the responsibility of management to ensure that the right people acquire the right skills.

## 2. Military Career Paths and Training

There is no career development pattern for the uniformed comptroller in the Department of the Navy. In the past the Navy assigned a low priority to financial management and its related personnel career field. An explanation for this is that the primary mission of the Navy is in the operational arena (e.g., flying, ship driving), and financial management is not an operational function. A higher priority is placed on operational capabilities and related weapon systems used in support of these capabilities, with the view that financial management will get done some way.

The Navy does have a financial management program which if properly utilized could be effective in training and selecting qualified, competent, financial managers. Naval activities maintain command manning documents in which financial management billets with requirements for specialized levels of training are designated. The Office of the Chief of Naval Operations also promulgates Navy instructions which describe the training and experience required to fill designated billets. Naval officers receive subspecialty codes based on their level of qualification and the method in which they received their knowledge and skills. The codes may be obtained through job experience, civilian graduate programs, and the Navy Postgraduate School.

The Navy categorizes its financial management officers according to education and experience as follows:

<u>Subspecialty</u>	<u>Total Authorized</u>
PhD	1
Masters--Proven	40
Masters	317
Masters or slightly less	2
Desire Masters, Not required	20
Proven Specialty with significant experience	5
Significant experience	140
Qualify upon completing tour	<u>64</u>
	589

The inventory of available Navy officers are<sup>3</sup>:

<u>Grade</u>	<u>Total</u>
O6	122
O5	213
O4	156
O3	45
O2	1
O1	<u>3</u>
	540

In 1983 there were approximately 1200 financial management officers in the Navy [Ref. 15]. Currently, the Navy sends about 75 officers annually to the Navy Postgraduate School in Monterey, California for financial management.

---

<sup>3</sup>Figures are dated August 1985 and may vary ( $\pm$ )5%. These figures are for officers with master's degrees.



Additional financial management training is provided through short courses offered at Monterey and by the Professional Military Comptroller Course offered through the Air Force.

The sponsor for the Navy financial management program is located in the Financial Management Directorate, Office of the Comptroller of the Navy. However, the detailers located at the Navy Military Personnel Command in Arlington, Virginia control the actual assignment of officers to financial management billets. In order to utilize its resources in an optimal manner, the Navy should ensure that financial management positions are filled by officers with the required education and experience. However, in the past a match between an officer's subspecialty code and the financial billet has been more by chance rather than by plan [Ref. 16].

There are three categories of Navy officers: unrestricted line, restricted line, and staff. Unrestricted line officers are those whose careers build toward command. Restricted line officers are usually former unrestricted line but have become specialized and are used only in certain positions (e.g., Engineering Duty Officer). Staff officers are those in areas such as the Supply Corps, Medical Corps, or Civil Engineers Corps and are characterized as performing support roles rather than line operational roles.

Usually the Supply Corps officer is prepared to be a financial manager through both education and experience, but line officers with very limited financial management experience

are normally assigned to the financial management billets at the top levels. Line and Supply Corps officers frequently mention this procedure as a drawback to career developments. The line officer is usually following a seamanship or airman-ship career path that does not include financial management. When the line officer who has no financial management experience is placed in a financial management job, he is understandably concerned about his inexperience as well as his opportunities for further promotion in the operational arena. On the other hand, the Supply Corps officer who has the background in financial management is worried about the lack of top level financial management positions slated for staff corps officers. The current assignment system provides for flag officers familiar with operational requirements to be placed in positions where critical financial decisions are made [Ref. 17]. It is not essential or a prerequisite, however, that they have financial experience or training.

## C. THE UNITED STATES AIR FORCE

### 1. Civilian Career Paths and Training

The Air Force has implemented its Comptroller Civilian Career Management Program (CCCMP). Under CCCMP, certain positions at GS 12 through 15 have been identified for central management. An automated referral system is maintained, and positions are filled centrally by providing referral certificates to selecting supervisors listing qualified candidates who have registered for the program. Central funds are used

to provide management development training for select members who have been identified as having a high potential for upper level comptroller billets.

The Air Force has also identified certain internal and external courses which careerist comptrollers should pursue, and IDPs are the vehicle through which courses may be requested.

## 2. Military Career Paths and Training

The Air Force has a structured career path for financial managers--Financial Utilization Field. Career progression is recommended to Air Force officers, and it is the individual officer's responsibility to take action.

The Career Progression Guide for the Financial Utilization Field (Air Force Regulation 36-23) gives five phases of development. The Initial Phase covers the first three years and includes developmental training and assignments. (This phase pertains only to non-rated officers.) The Intermediate Development Phase (years 4-10) continues a diversity of assignments and is the phase during which officers may cross-train into other specialties. It is during this phase that rated officers begin coming into the comptrollership field. The Advanced Development Phase (years 11-16) requires positions of increased responsibility and attention to rounding out the officer's experience leading toward obtaining status as a fully qualified comptroller during the fourth phase. This is the most critical time during the aspiring officer's

career. The Staff Phase (years 17-21), if successfully reached, should bring assignments as base or wing comptroller, major command or Department of the Air Force level staff officer. Few officers are allowed to enter the field during this phase according to Air Force Regulation 36-23. The final phase is the Executive or Leader Phase (years 22+). At this point, officers serve as major command comptrollers, departmental level directors, or other staff positions based upon abilities and experience. [Ref. 18:pp.6-7] The Air Force provides formal training through the Air Force Institute of Technology at Wright Patterson Air Force Base, Ohio. Degree-producing education programs in residence and at selected civilian institutions are offered at this activity. Attendance is based upon application, evaluation, and competitive selection. Utilization assignments usually follow. The Professional Military Comptroller course provides executive level training and is filled by a board examination which has a selection rate of about twenty five percent. [Ref. 18:p. 8]

Assignment actions for Air Force Comptrollers are managed by the Air Force Military Personnel Center under the "Palace" mode, which refers to centralized management of career fields. Comptrollers are under the control of the Palace Dollar representative. The officer's input to the process is the Air Force Form 90, Officer Career Objective Statement. [Ref. 18:p. 8]

The Air Force has 1,663 officers in the comptroller field:

<u>Grade</u>	<u>Authorized Billets</u>	<u>Total Officers</u>
O6	96	94
O5	276	194
O4	394	230
O3	665	706
O1-O2	<u>283</u>	<u>439</u>
	1,714	1,663

#### D. INCENTIVES FOR FINANCIAL MANAGERS

Incentive awards for civilian employees are regulated by law, but the law and regulations give departments and agencies a great deal of flexibility in using incentive awards. Agencies may [Ref. 19]:

1. Establish their own kinds and amounts of awards;
2. Approve awards up to \$10,000;
3. Design awards programs to meet specific goals;
4. Provide immediate cash awards;
5. Directly relate individual and organizational performance to cash awards.

Incentives for military personnel in financial management include medals and citations for jobs well done. In addition the threat that funds will be cut if operations are not efficient serves as an incentive for managers to ensure that they are operating at the most efficient level.

#### E. COMPARISON

The Air Force Financial Management Program is more structured and centralized than the Navy program. However, the Navy offers extended graduate study to civilians while



the Air Force does not. Neither program is tailored specifically to the needs of civilian careerist financial managers. Many of the courses offered, which were originally established for military personnel, now have allocations for civilians. Standardized requirements would serve to upgrade current programs and provide the services with managers who have been steeped in all facets of financial management functions. Prepared in this way, these managers could adequately satisfy requirements of top level financial management positions.

On the military side, the Air Force has a better organized financial management career field for its uniformed personnel. The Navy should establish a separate corps of officers specifically for financial management jobs and implement an attractive career path for these officers. Uniformed personnel selected to top level jobs should not only be well-versed in operational procedures but also have a working knowledge of financial management procedures. The Air Force reflects a more traditional distribution of financial managers (e.g., more entry level financial managers). The Navy reflects a policy of sending experienced line officers through graduate financial management programs.

#### F. CHAPTER SUMMARY

Both the Navy and the Air Force have implemented financial management career training programs for civilian employees. The objectives of these programs are to establish a competent

financial management work force and to provide this work force with the appropriate experience, training, and developmental opportunities and education for advancement and promotion. However, program improvements, as mentioned above, are needed.

#### IV. ANALYSIS

##### A. COMPARISON OF FINANCIAL MANAGEMENT ORGANIZATIONS

The Navy and Air Force's financial management organizations are compared in Table I using various characteristics. (These factors were discussed in prior chapters.)

TABLE I

COMPARATIVE DATA FOR FINANCIAL MANAGEMENT ORGANIZATIONS

<u>Financial Management</u>	<u>Navy</u>	<u>Air Force</u>
Comptroller	Civilian	Military
Where reports		
HQ	Secretary of Navy	Chief of Staff
Field level	local commander	local commander
Authorized billets (mil)	589	1,714
Education Field	Masters or Experience	B.S. in FM (but not reqd) or FM experience
# officers	1,200	1,663
Service budget	\$95.6 Billion	\$99.4 Billion
Personnel strength in Service	1,272,000	920,000

##### B. COMPTROLLER ORGANIZATIONAL STRUCTURES

In Chapter II the organizational structures for the comptroller organizations were discussed and shown graphically

in Figures 1 and 2 for the Navy and Air Force respectively.

What is the reason for the different structures? The former Auditor General of the Navy offered the following explanation:

. . . the reason we (Navy) have the Comptroller at the Secretariat level as opposed to down at OPNAV (Chief of Naval Operations) is because of the Marine Corps. If we (Navy) were to structure similar to the Army and the Air Force, there would have to be two comptrollers-- a Navy comptroller and a Marine Corps comptroller. That probably could be done. But if you look at the directorate in the organizational chart, Army and Air Force FMs (Secretaries for Financial Management) have a reasonable size staff that is able to deal with the kinds of accounting, budgeting, and financial issues that have to be dealt with at the Secretariat level. The rest is done at the Comptroller shop which at Chief of Staff. . . . The Navy's FM has virtually no staff (two military executive assistants). It is extremely hard to separate two hats of Navy FM and Comptroller. [Ref. 10]

When others were asked about the organizational structure of the Navy Comptroller, the consensus was that is it so organized because the Navy must support the Marine Corps.

It was shown that the Navy's organization is unique in another situation, in that the Director of Budget and Reports (NCB) is also the Director of Fiscal Management for Chief of Naval Operations. Can one individual effectively work for two bosses? Why is it so organized? The former Auditor General of the Navy response to these questions was:

Years ago, around 1970, you had a CNO Budget Office and you had NAVCOMPT. Decision was made to merge into one budget office but have it double hatted--work both for CNO and SECNAV. The major motivation for merging was that by having two entirely separate budget offices, there was a lot of overlap and duplication. Now we have a situation where a person has two bosses. . . . Difficult for an individual to work to two bosses . . . confuses authority and responsibility. [Ref. 10]

The Deputy Auditor General, who previously worked for Chief of Naval Operations, said the following about this situation:

There is the potential of a conflict when working for two bosses but in the five years I was in the NAVCOMPT organization, I did not experience or see any problems of reporting to two bosses. Clearly, the guy in NCB/OP-92 has to walk a very thin line, but the three I have worked with in that position have managed to do very well in that position with no difficulty. [Ref. 17]

In talking with others who are currently in the NAVCOMPT Budget Office, the general opinion was that the potential exists for conflict in working for two bosses, but they have not had any problems so far. One budget analyst expressed it this way: "When we are preparing the budget, we work for SECNAV. When we are executing the budget we work for CNO. There is no conflict." [Ref. 20]

#### C. RELATIONSHIP BETWEEN INTERNAL AUDITING AND COMPTROLLER

Knowing the structure of the comptroller organization, how does it impact on internal auditing? Figures 3 and 4 in Chapter II shows the organization of the internal audit functions.

Originally, the auditing function was created in the Comptroller Office. However, management's perception was that since the auditors worked for the Comptroller there would be too much emphasis on financial type of audits and less on economy, efficiency, and effectiveness audits. In 1978, the cord between the Comptroller and auditors was broken.



When the audit service became a separate entity, it removed the perception held by many that findings could be suppressed by the Comptroller. Next, the Auditor General position was civilianized to combat the perception that the military was suppressing findings. (The General Accounting Office performed a study in 1977 which addressed the perceptions mentioned and led to the reorganization of the audit services.) The relationship between the audit and Comptroller functions as expressed by both the Navy and the Air Force is one of customer and client. Where is internal audit in relation to other commands (e.g., LANTFLT, PACFLT, NAVSEA) on the Comptroller's priority list? The Naval Audit Service may be experiencing frustration in the battle for resources because the Comptroller is no longer their boss. The Naval Audit Service has to compete with the other operational commands for resources.

According to personnel interviews, when the Naval Audit Service was under the Comptroller, its product, the audit report, was questionable due to lack of independence. However, even when the Naval Audit Service was removed from the Comptroller, the product was still questionable. Before, when the product was challenged, the perception was that the Comptroller was suppressing the findings, but now the perception is that there is no Comptroller support. The real problem is in the product, the audit report. The Naval Audit Service has to provide the customer with the product the

customer wants and needs, and as long as the Auditor General can satisfy customer needs, quantify audit needs and sell them to the Comptroller, the auditor will get required resources. The Deputy Auditor General of the Navy stated that "the key is to get your requirements into the Program Objective Memorandum and it will probably show up in the budget." Navy audit has to work with management in defining management's needs, and its primary customer should be the Department of the Navy, and not the Congress, or the Press, or even the American public.

#### D. INTERNAL AUDITING AND MANAGEMENT

The Navy and Air Force's internal audit organizations are compared in Table II using operating characteristics discussed in prior chapters. As shown in Table II, the Air Force Audit Agency has fifty percent more auditors than the Naval Audit Service and produces five times as many audit reports with a budget that is only \$8 million more. It must be pointed out, however, that the Air Force Audit Agency also performs the internal review function for the Air Force, and approximately 1700 of the audit reports produced are for local installations.

The Air Force Audit Agency's strength lies in the amount of time devoted to multilocation audits and the flexibility gained from generating audit issues vice audit topics. This flexibility allows them to perform requested audits to accommodate management without seriously interrupting plans. In FY 85, the Air Force performed twice as many request audits as

TABLE II  
COMPARATIVE DATA FOR AUDIT ORGANIZATIONS

<u>Auditing</u>	<u>Navy</u>	<u>Air Force</u>
How financed	Regular budget	Regular budget
Auditor General	Civilian	Civilian
Budget	\$25 million	\$33 million
# auditors	518	789
Entry level	GS-5	GS-5
# of reports	341	1,798
Request audits	20%	39%
Education	College degree in accounting or equivalent experience	College degree in accounting or equivalent experience
Multilocation audits	18	90
Scope	Financial/Compliance, Economy/Efficiency & Program results	Financial/Compliance, Economy/Efficiency & Program results
Training	Functional & OJT	Functional & OJT
# (million) of total service budget per auditor	\$184	\$126
How organized	4 regions	2 directorates

the Navy. Another advantage that the Air Force Audit Agency has is the division into two directorates which builds up functional expertise. Finally, the Air Force Audit Agency

does not emphasize financial statement auditing and actually spends considerably more time striving to provide management oriented assessments to commanders at all levels. The Air Force has a reputation for generating quality audit reports.

The Naval Audit Service is overtasked. Audit requirements and auditors are not commensurate. In addition, commands tend to view the Naval Audit Service not as support to management but as a group of civilians whose primary job is to write a negative audit report. "Service to Management" is the motto of the Naval Audit Service. In order to support its motto, it is the responsibility of the Naval Audit Service to produce quality reports that will assist Navy managements. Audit findings that incorporate potential savings must be reported accurately and specifically.

In some instances the Naval Audit Service has not been able to support its potential savings findings. This casts a negative shadow on the usefulness of the audit reports. Nevertheless, Congress has sometimes used the reports as the basis for arbitrarily cutting the Navy's budget. It is the responsibility of the Navy Comptroller to incorporate any budget savings or budget impacts into the DoN budget based on audit reports. To be effective, the audit function must be responsive to management's need in accomplishing their objectives. A quality audit report must be produced and the results impartially implemented by management.

Another management perception that separates internal auditing and management is that operational auditing is

beyond the capability of the average auditor. The argument is that auditors do not have the functional or technical skills to evaluate the operational activities of the military forces. Of course, a certain amount of functional expertise is desired, but an auditor does not have to know everything about an audit area to perform a meaningful and useful audit. Basic analytical skills, observation, good judgment and common sense are characteristics required of an auditor to perform operational audits. Technical experts are not required to review the effectiveness of management controls and internal controls, which is what auditing does.



## V. CONCLUSIONS AND RECOMMENDATIONS

### A. INTRODUCTION

Chapters I through IV have provided an overview of two financial management systems in DoD, their internal auditing functions, and the relationship between the financial management systems and internal auditing.

This chapter offers the conclusions and recommendations generated by the research. Conclusions are based on the information obtained from literature, interviews, observations, and comparisons made during the research process. Recommendations are made with the intent of improving the relationship between management and auditing and improving the quality and caliber of financial managers.

### B. CONCLUSIONS

Both the Navy and the Air Force Comptroller functions are decentralized, and the field comptrollers do not work directly for the comptroller of the service. Rather, field comptrollers reports to field commanders and the field comptrollers' performance is evaluated by field command.

In previous studies of large decentralized firms [Ref. 5], it was shown that, when division comptrollers (field comptrollers) are independent of the headquarters comptrollers, internal auditing tended to devote more resources to financial and compliance type auditing. Based on the data available,

it cannot be concluded that comptroller functions in the Navy and the Air Force influence the type of audits performed by internal auditing functions. However, it was shown that the Air Force Audit Agency performs more multi-location audits (90) than the Navy (18), and these multi-location audits tend to be more operational, or economy and efficiency type audits.

The increase in resources allocated to the military services and the public's scrutiny of how these resources are expended have generated current interest in the importance of financial management and the development of competent financial managers. The Navy's program of selecting and assigning top level financial managers is not coherent with line career pathing and needs to be re-examined.

The organizational structure of the Navy's financial management system lends itself to possible conflict between Navy organizations (e.g., NAVCOMPT reporting to both SECNAV and CNO).

### C. RECOMMENDATIONS

1. The Navy financial management system's structural organization at headquarters level should be evaluated and the potential conflict that exists by having both SECNAV and CNO as bosses of the Budget and Reports Division should be included in the evaluation.
2. An evaluation of the Navy programs being used for the assignment of personnel in the financial management specialty should be performed.
3. Increased emphasis should be placed on expanding the Navy's financial management training programs. A financial management career pattern for military officers should be developed and used to plan assignments for all Navy financial managers. Programs

used in large corporations, the Army, and the Air Force should be studied to assist in better defining the Navy's program.

4. Communication needs to be improved between management and auditors. Audit committees, which have responsibility for procedures, concepts, and benefits of internal audit, have been established in private businesses to assist management in gaining a better understanding of the role of internal auditing. An audit committee needs to be established at activities and commands where an internal audit function or audit site is located. The audit committee would work for the activity's commanding officer and act as liaison between the command and the audit entity.
5. The Director of the Naval Auditor Service should task the regional directors to engage in more multi-location operational audits in support of management. Overtasked resources currently used to audit the same functions that internal review performs could be released to obtain this objective. Instead of auditing the same areas as internal reviewers, Navy auditors should audit the internal review procedures.
6. Naval Audit Service reports should be top quality, with concise and precise listing of key findings that require action in the budget process.

#### D. AREA FOR FURTHER RESEARCH

Because the Air Force Audit Agency also conducts the internal review functions for the Air Force, the relationship between installation internal review organizations and the Naval Audit Service was also reviewed. There is no organizational relationship between the two.

Internal review organizations receive their control and authority from the commanding officer of the activity. Within the Navy, the internal review function may be organizationally assigned to the comptroller department. Policy directive, SECNAVINST 7510.8B, which states:

The internal review function should be organizationally placed in a direct staff capacity to the Commanding Officer. If such placement is not practical the function may be assigned to a senior management official. The organizational placement shall not impede or limit the independence, objectivity and scope of reviews.  
[Ref. 21:p. 1]

allows such placement. Even though it is permitted, it does not appear to be in the best interest of the command. The comptroller department itself requires close scrutiny and examination, and the average internal reviewer would find it difficult to perform an independent and objective review of the comptroller shop that would reflect negatively on the superior. The end result is that the comptroller operations may not be effectively examined, and the comptrollers have the potential to influence findings.

A final recommendation is to utilize authority to place internal review as a direct staff capacity to the commanding officer and remove the authority for assigning internal review to a senior management official.

### LIST OF REFERENCES

1. Mintzberg, H., The Nature of Managerial Work, Harper and Row, 1973.
2. Tierney, C.E. and Hoffman, R.D., Federal Financial Management: Accounting and Auditing Practices, AICPA, Inc., 1976.
3. Sathe, V., Controller Involvement in Management, Prentice Hall, Inc., 1982.
4. Warren, P.F., The Air Force Comptroller Organization from a Systems Approach, LD# 61363A, DLSIE, Ft. Lee, VA, March 1985.
5. San Miguel, J.G. and Govindarajan, V., "The Contingent Relationship Between the Controller and Internal Audit Functions in Large Organizations," Accounting Organizations and Society, Vol. 9, pp. 179-188, 1984.
6. The United States Government Manual, 1984-1985, Government Printing Office, 1984.
7. Navy Comptroller Manual, Comptrollership Organization and Responsibilities, Vol. 1, 1983.
8. National Security Act Amendment of 1949, Ch. 412 Section 11, 63 Stat. 585 (1949) (codified in 10 USC Section 136(b) 1976).
9. Budget and Accounting Act of 1950, 31 USC Section 66(a) 1950.
10. Hancock, K., Interview, Naval Audit Service, Auditor General, Falls Church, VA, 9 December 1985.
11. Ellis, R.S., Selected Improvement for the Air Force Audit Agency, LD# 53719A, DLSIE, Ft. Lee, VA, 1983.
12. Air Force Regulation 23-38, Air Force Audit Agency, HQ USAF, Washington, DC, p. 1, 1981.
13. Brown, R.E., Gallagher, T.P., and Williams, M.C., Auditing Performance in Government, John Wiley & Sons, Inc., p. 283, 1982.
14. Berquist, G.W., "The Whole Comptroller," Armed Forces Comptroller, Spring 1973.



15. Darby, P.J., Maintaining the Professional Knowledge of Financial Management Subspecialists, Master's Thesis, Naval Postgraduate School, Monterey, California, September 1983.
16. Lundgren, S.C., The Time for Professional Development for Navy Comptroller is Now, LD# 49680A, DLSIE, Ft. Lee, VA, p. 6, September 1981.
17. Hancock, W.J., Interview, Naval Audit Service, Deputy Auditor General, 9 December 1985.
18. Heard, J.D., Comptroller Management--A Tri-Service View, LD# 54620A, DLSIE, Ft. Lee, VA, 1983.
19. Manager's Handbook, Revised ed., p. 99, U.S. Office of Personnel Management, 1981.
20. McCullough, D., NAVCOMPT, Senior Budget Analyst, Washington, DC, 10 December 1985.
21. SECNAV Instruction 7510.8B, 16 September 1985.

INITIAL DISTRIBUTION LIST

	No. Copies
1. Defense Technical Information Center Cameron Station Alexandria, Virginia 22304-6145	2
2. Library, Code 0142 Naval Postgraduate School Monterey, California 93943-5002	2
3. Defense Logistics Studies Information Exchange U.S. Army Logistics Management Center Fort Lee, Virginia 23801	1
4. Professor J.G. San Miguel, Code 54Sm Department of Administrative Sciences Naval Postgraduate School Monterey, California 93943-5100	1
5. LCDR J.R. Duke, Code 54Dc Department of Administrative Sciences Naval Postgraduate School Monterey, California 93943-5100	1
6. Mr. Al Massey Headquarters Air Force Audit Agency Norton AFB, California 92409-6001	1
7. Auditor General of the Navy Naval Audit Service P.O. Box 1206 Falls Church, Virginia 22041	1
8. Mr. Richard Curtin Naval Audit Service P.O. Box 1206 Falls Church, Virginia 22041	1
9. LT Frances R. Davis P.O. Box 66 Harriston, Mississippi 39081	1















The Thesis  
D16D16957  
c.1c.1

227385  
Davis

An examination of  
the interrelationship  
between the structure  
of financial manage-  
ment and the internal  
audit function within  
the Department of De-  
fense.

Thesis  
D16957  
c.1

227395  
Davis

An examination of  
the interrelationship  
between the structure  
of financial manage-  
ment and the internal  
audit function within  
the Department of De-  
fense.





thesD16957

An examination of the interrelationship



3 2768 000 65812 4

DUDLEY KNOX LIBRARY